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MONTANA FARMER'S UNION

RURAL DEVELOPMENT CORPORATION

GREAT FALLS, MONTANA

FINANCIAL AND COMPLIANCE AUDIT REPORT

GREEN THUMB STATE PROGRAM

FROM JULY 1, 1978 TO JUNE 30, 1979

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FROM JULY 1, 1978 TO JUNE 30, 1979

AUDIT ORGANIZATION

McGLADREY HENDRICKSON & CO.

BILLINGS, MONTANA

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Prime Sponsor's Response to Finding and Recommendation

McGladrey Hendrickson & Co.
CERTIFIED PUBLIC ACCOUNTANTS

To the Legislative Audit Committee
Montana State Legislature
Helena, Montana

SUMMARY

We have examined Schedules A and B which summarize reported financial results and cash position of the subgrant awarded by the State of Montana, Department of Labor and Industry, Governor's Employment and Training Council to the Montana Farmer's Union Rural Development Corporation, Great Falls, Montana, under U.S. Department of Labor Grant No. 99-8-225-11-8. The Prime Sponsor Subgrant, Number 59265, was funded from Green Thumb Title IX for the period 7/1/78 - 6/30/79.

The audit disclosed:

- Participants worked more hours than Federal regulations allow.
- June 30, 1979 cash cut-off was not accurate.
- Not all expenditures were posted to the books of account.
- Necessary budget modifications are not being made.

Exhibit I lists $474 of questionable expenditures disclosed by the audit. The determination as to whether the costs will be allowable or unallowable under the subgrant will be made by the State of Montana, Department of Labor and Industry, Governor's Employment and Training Council. Exhibit I was not prepared for purposes of statistical projection.

SCOPE OF AUDIT

This report covers our examination of the financial results of program operations of the Subgrantee for the subgrant and the period referred to in the preceding Summary.

Our examination was made in accordance with instructions contained in the CETA Financial and Compliance Audit Guide and provisions of the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions", promulgated by the Comptroller General, which pertain to financial and compliance audits.

Our examination included such tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances.

The aforementioned Schedules are required to be prepared in accordance with the Standards for Grantee Financial Management Systems (Federal Management Circular 74-7, Attachment G) in conformity with the CETA Regulations; therefore, they are not intended to present either the financial results of operations or financial position in conformity with generally accepted accounting principles.

Statistical sampling is the preferred method of selecting a sample. Accordingly, in any area where the volume of transactions and record locations would permit, we have used statistical sampling for purposes of determining the audit sample size, selecting the sample items and evaluating the results for the period examined. Our tests were designed on an attribute sampling basis, based on an expected rate of occurrence of 3% and a confidence level of 90%.

BACKGROUND

Our audit consisted of an examination of the financial and program records related to the CETA program operated by this Subgrantee.

The objectives of the audit were to determine whether the financial operations were properly conducted and documented, whether the Schedules were fairly presented and whether the Subgrantee complied with applicable laws and regulations. Our examination did not include a review of economy and efficiency or a review to determine whether desired results or benefits were achieved.

The audit was made by arrangement with the Prime Sponsor, State of Montana, Department of Labor and Industry, Governor's Employment and Training Council, to provide audits required by the United States Department of Labor and to provide the Prime Sponsor with information about the Subgrantee. The audit covered the period July 1, 1978 to June 30, 1979.

The Subgrantee examined in this audit was the Montana Farmer's Union Rural Development Corporation.

We reviewed the findings and recommendations of the prior audit of this Subgrantee for the subgrant ending during the period July 1, 1977 to June 30, 1978. We found all recommendations had been fully implemented, partially implemented or not implemented due to disagreement with the finding. We specifically reviewed those items either partially or not implemented and to the extent they were still applicable, included the findings in our recommendations.

OPINION

Exhibit I lists $474 of questioned costs disclosed by our audit sampling of the Subgrantee's subgrant records for the period referred to in the preceding Summary. The determination as to whether such costs will be allowable or unallowable under the subgrant agreement will be made by the State of Montana, Department of Labor and Industry, Governor's Employment and Training Council.

In our opinion, subject to any effects of the ultimate resolution of questioned costs, Schedules A and B present fairly, for the dates and period indicated on the Schedules, the financial results of operations and CETA cash position of the subgrant awarded to the Montana Farmer's Union Rural Development Corporation in accordance with the Standards for Grantee Financial Management Systems (Federal Management Circular 74-7, Attachment G) and in conformity with the CETA regulations; and Exhibit I presents fairly the costs questioned as a result of our audit.

FINDING AND RECOMMENDATION

Excess Hours

Two individuals worked more than the maximum number of hours allowable under Federal regulations. 29 CFR § 89.32(c) limits the number of hours of work for which Federal funds may be used to compensate enrollees to 1,300 hours in any 12 month period. The two participants worked 1,361 and 1,393 hours from July 1, 1978 to June 30, 1979.

Recommendation

The Subgrantee should maintain logs of hours worked by participants and use such logs to plan future work hours so that the Federal limitations are not exceeded.

REVIEW OF INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

As part of our examination, we made a study of the systems of internal accounting and administrative control to the extent we considered necessary to evaluate the systems as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and administrative control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effec-

tiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with procedures may deteriorate.

Our study and evaluation of the systems of internal accounting and administrative control for the period referred to in the preceding Summary would not necessarily disclose all weaknesses in the system; however in our opinion, the internal accounting and administrative control procedures are in general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations, except as follows:

Cash Cut-Off

Although the Subgrantee was reconciling cash balances to the monthly bank statements on a monthly basis, the June 30, 1979 cash balance and reconciliation included checks written in the first ten days of July. Most of these were payroll checks and payroll tax remittances for the pay period ending June 30, 1979. As a result the cash balance at June 30 was understated by $11,763. In addition, the closeout report submitted to the Prime Sponsor did not segregate cash disbursements as of June 30, 1979 from total accrued expenditures. In order to prepare Schedule A, Status of Federal Cash, it was necessary to review the Subgrantee's cash disbursements to determine that, per their books, accruals were $3,378 as of June 30, 1979. Total accruals were $15,141 when consideration is given to the cash cut-off error noted above. Schedule A was prepared recognizing these accruals and reflects the adjusted June 30, 1979 cash balance.

Recommendation

The Subgrantee should implement accurate cash cut-off procedures so that the books of account give an accurate presentation of cash balances.

Accounting System

As noted by previous auditors, the Subgrantee does not maintain a double entry, formal general ledger system. The Subgrantee currently maintains receipts, payroll, and cash disbursement journals and a cash ledger from which trial balances and reports to the Prime Sponsor are prepared. The present system is generally adequate for the preparation of reports and the transactions are simple enough to provide for an adequate audit trail. However, certain charges were not posted to the cash disbursements journal and the closeout report did not tie directly to the books of original entry.

Recommendation

All expenditures should be recorded in the appropriate journal.

Budget Classification and Variances

The services cost category shown on Schedule B, Statement of Accrued Expenditures, is comprised of participant travel, supplies, and medical exams in the subgrant agreement. The Project Operating Plan and the narrative of the subgrant were inconsistent in amounts and classification. The classification from the narrative and the amounts from the Project Operating Plan were used to determine what was intended.

The Subgrantee had a 17.2% budget variance in its participant travel costs which resulted in a 16.3% budget variance in the Services category on Schedule B. The subgrant agreement with the Prime Sponsor requires that a major modification be submitted for transfer of funds among cost categories causing any single cost category to increase or decrease by 15% or more.

Recommendation

The Subgrantee should review the subgrant agreements more carefully and make the appropriate modifications as required by subgrant provisions.

EXIT CONFERENCE

An exit conference was held at Helena, Montana on August 5, 1980. Those in attendance were:

Subgrantee- George Erickson, Director

Prime Sponsor:
Zana Smith, Subgrant Manager
Florine Smith, Fiscal Bureau Chief
Pat Emerson, Fiscal Manager
Cheryl Leppink, Fiscal Manager
Gary McDanel, Fiscal Manager

Auditors:
Richard Burris, Manager
Norm Kolpin, Staff
William Erickson, Staff

Audit findings and recommendations were discussed. General agreement was reached as to the audit findings.

This report is intended for use in connection with the administration of CETA grants to which it refers and should not be used for any other purposes.

Peat Marwick Mitchell & Co.

Billings, Montana

March 25, 1980

Schedule A

MONTANA FARMER'S UNION RURAL DEVELOPMENT CORPORATION

CETA SUBGRANT NO. 59265

GREEN THUMB TITLE IX STATE PROGRAM

STATUS OF FEDERAL CASH

FROM JULY 1, 1978 TO JUNE 30, 1979

CASH ON HAND, July 1, 1978	$ -
INCREASES-	
Federal cash received	179,450
DECREASES-	
Gross disbursements	163,395
CASH ON HAND, June 30, 1979	$ 16,055

See Note to Schedules and Exhibits.

Schedule B

MONTANA FARMER'S UNION RURAL DEVELOPMENT CORPORATION

CETA SUBGRANT NO. 59265

GREEN THUMB TITLE IX STATE PROGRAM

WORK EXPERIENCE

STATEMENT OF ACCRUED EXPENDITURES

FROM JULY 1, 1978 TO JUNE 30, 1979

COST CATEGORY	Total Contract Budget	Total Accrued Expenditures
Administration	$ 2,900	$ 2,801
Wages	143,900	140,413
Fringe benefits	21,900	22,821
Services	10,750	12,501
Total	$ 179,450	$ 178,536

See Note to Schedules and Exhibits.

MONTANA FARMER'S UNION RURAL DEVELOPMENT CORPORATION

CETA SUBGRANT NO. 59265

GREEN THUMB TITLE IX STATE PROGRAM

SUMMARY SCHEDULE OF QUESTIONED COSTS

FROM JULY 1, 1978 TO JUNE 30, 1979

COST CATEGORY	Total Amount Questioned	Supporting Exhibit
Wages	$ 447	I-A
Fringe benefits	27	I-A
Total	$ 474	

See Note to Schedules and Exhibits.

MONTANA FARMER'S UNION RURAL DEVELOPMENT CORPORATION

CETA SUBGRANT NO. 59265

GREEN THUMB TITLE IX STATE PROGRAM

DETAILED SCHEDULE OF QUESTIONED COSTS

FROM JULY 1, 1978 TO JUNE 30, 1979

Two participants worked more than the allowable 1,300 hours from July 1, 1978 to June 30, 1979:

Hours Worked	Excess	Hourly Rate	Questioned Wages	Questioned Fringe Benefits
1,361	61	$ 2.90	$ 177	$ 11
1,393	93	$ 2.90	270	16
Total			$ 447	$ 27

See Note to Schedules and Exhibits.

NOTE TO SCHEDULES AND EXHIBITS

SIGNIFICANT ACCOUNTING POLICIES AND PROGRAM INCOME:

The Schedules have been prepared in accordance with instructions contained in Standards For Grantee Financial Management Systems (Federal Management Circular 74-7, Attachment G) and in conformity with CETA Regulations. In accordance with these instructions, federal funds received are recognized when cash is received. Expenditures are recognized when incurred. This basis of accounting is not in accordance with generally accepted accounting principles.

No program income was received by the subgrant program during the period covered by these Schedules.

APPENDIX

DEPARTMENT OF LABOR AND INDUSTRY
EMPLOYMENT AND TRAINING DIVISION

THOMAS L. JUDGE, GOVERNOR
STATE CAPITOL

STATE OF MONTANA

(406) 449-5600
HELENA, MONTANA 59601

September 22, 1980

Matt Himsl, Chairperson
Legislative Audit Committee
Montana State Legislature
Office of Legislative Auditor
State Capitol
Helena, MT 59601

Dear Mr. Himsl:

Enclosed is the draft Audit Report which we have accepted for Montana Farmer's Union Rural Development Corporation, Great Falls, Montana for CETA Fiscal Year 1979 Subgrant:

59265 - Title IX, Older Worker Program

This audit was conducted by McGladrey, Hendrickson & Co., CPA's, under contract with the Employment and Training Division, Department of Labor and Industry. The comments and recommendations contained in this report represent the views of the auditing firm.

Upon your review of this audit report, we will begin a 120 day resolution process with the subgrantee as follows:

1. A copy of the final audit report will be sent to the subgrantee for a thirty (30) day comment period. All findings and recommendations are to be addressed by the subgrantee in their response.

2. The Employment and Training Division will issue a written initial determination which will include a notice giving the subgrantee the opportunity for informal resolution.

3. The subgrantee must request an opportunity for informal resolution within ten (10) days in writing. Following the meeting of all appropriate parties, the Employment and Training Division will notify the subgrantee in writing of the nature of the resolution, if all matters have been informally resolved.

4. The Employment and Training Division will issue a final determination no later than 120 days after the audit report has become final. The final determination will include those matters which were not informally resolved, corrective actions which will be necessary, and inform the subgrantee of the

opportunity to request a hearing. Within thirty (30) days of the receipt of the final determination, the subgrantee must submit in writing a request for hearing to the Employment and Training Division.

The Employment and Training Division will attempt to recover all funds which were not expended in accordance with CETA law and regulations. We will also follow-up on any corrective actions necessary for the subgrantee.

Sincerely,

T. GARY CURTIS
Administrator

Enclosure

FB2/A